Vermont Economic Progress Council

Christine Oliver comments for 7/28/16 Meeting

What are some of the various approaches companies take to offer employee benefit packages?
Section 125 Plans – pretax funds used for premiums and contributions to HSAs or FSAs

Medical – Fully insured or self-funded

- Cost varies widely based on the size if the group and its experience
- Employers generally pay a portion of the health insurance premium: typically 60%-80% of individual policies; 50% of 2-person and family policies.
- Premium contributions in addition to contributions to a Health Savings Account or Health Reimbursement Account help to keep the employees out of pocket costs lower.

Of the other benefits available, group life and long-term disability are relatively inexpensive and important for financial security. The next level of benefits that are nice to have are dental, short-term disability and vision.

How do companies balance wages and benefits in total compensation?
Employers look at the combination of benefits and compensation to determine what the business can afford. Wage increases are considered in conjunction with expected increases in the cost of benefits each year. In an effort to keep funding available for raises, employers consider alternative benefit designs that attempt to minimize the impact on employee cost sharing and employer contributions.

Labor market forces also impact the level of benefits employers offer in order to attract and retain employees.

Are there standards for valuating or quantifying benefits?
There are no standards for valuating or quantifying benefits. However, there are labor market studies that benchmark the types of benefits that exist and can be broken down by industry and geographic region.

Although the cost of benefits could be calculated as a percentage of payroll, the calculation is less meaningful when considering the “value” of the benefits is dependent on group size and demographics. Setting the employees contribution as a percentage of income has historically been more complex than it appears on its face.

Medical – A requirement for the amount of the employee out of pocket expense could be set. (Ex. $2,000 individual/$4,000 family). However, with this approach, you cannot determine what the cost will be to any particular employer.

Long-Term Disability (LTD) – Generally, LTD benefits pay out at 60%. Best practices dictate that the cost of the employer's premium contribution be included in the employee's taxable income in order to ensure any benefit received by the employee is tax free.

> Example: Consider an employee earning $60,000 per year. If the employee pays tax on the employer's premium contribution (of $12 - $16 per month), the employer will pay less than $75 per year in taxes and the benefit upon disability will $36,000 per year until age 65 - tax free. However, if the premiums are not taxed, the benefit will be taxed and the employee would receive roughly $28,000 per year after taxes until age 65.

Which benefits are really paid for by the employer and how can the employer's share be calculated?

Medical - Employers generally pay a portion of the premium (and support an HSA and/or HRA, if applicable).

Ancillary insurances

- Group LTD, STD and life - Typically, employers cover the premium cost for a specific level of coverage.
- Dental – Some employers pay a portion of the premium (similar to Medical coverage)
- Vision – Some employers cover the cost of the premium (as it is not very costly); others make it available to employees on a voluntary basis.

Voluntary benefits – offered at employee's expense (additional life, additional disability, vision, etc.)